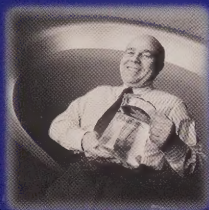


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# Taking Care of Business



**Ontario Clean Water Agency**  
**Annual Report 1995**



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The Ontario Clean Water Agency (OCWA) was created in 1993 under the Capital Investment Plan Act. OCWA is a provincial Crown corporation providing water and wastewater services to Ontario municipalities. The Agency operates 429 facilities in the province, ranging from metropolitan water distribution systems to small lagoons and pumping stations. The Agency serves an estimated 18% of Ontario's population with water treatment services and 29% of the population with wastewater treatment services.

While OCWA itself is a relatively new creation, its roots reach back almost 40 years to the Ontario Water Resources Commission. Some of OCWA's staff of 1,000 have been ensuring the safety and security of municipal water supplies for generations.

#### OCWA is responsible for:

- the operation of 208 water and wastewater treatment facilities owned by the Province;
- the operation of 221 municipally owned facilities;
- assisting 84 municipalities in building or expanding treatment facilities;
- and financial assets valued at \$577 million in interest-bearing loans to municipalities.

OCWA is not a monopoly and receives no government subsidies. To succeed the Agency must provide market-competitive services.

The Ontario Clean Water Agency is one of the largest providers of clean water services in North America. A full service water company, OCWA offers its clients environmentally responsible service and a level of technical expertise which is second to none.

**Mission** To be the best in the business of producing clean water and promoting its wise use.



- Eastern Area
- Western Area
- Central Area
- Northern Area
- OCWA Area Offices and Corporate office



- Significant strides in business strategy and client focus were taken to prepare for the commercialization of the Agency.
- Total Revenue was slightly ahead of 1994 at \$183.7 million.
- Net Earnings increased by 17% compared to 1994.
- Net Earnings from Capital Financing rose by 24% to \$23.6 million compared with 1994.
- Losses from Operations increased by 42% to \$7.3 million, reflecting complete staffing compared with 1994 start-up.
- Operating contracts increased by 27 to 429 and Project Management contracts increased by 39 to 159.

(in millions of dollars, unless otherwise stated)

	1995	1994 <sup>1</sup>
<b>Financial Highlights</b>		
Total Assets	644.6	688.1
Net Cash Flow	30.2	46.2
Total Revenue	183.7	183.1
Total Net Earnings <sup>2</sup>	16.3	13.9
Equity of Ontario	140.4	123.8
Return on Average Equity	12.4%	12.5%
Current Ratio	1.4x	1.9x
Utility Operations		
Revenue	121.9	120.9
Net Earnings (Loss)	(7.3)	(5.1)
Capital Financing		
Revenue	61.8	62.3
Net Earnings	23.6	19.1
<b>Operational Highlights</b>		
Number of Operating Contracts	429	402
Number of Project Management Contracts	159	120
Number of Employees	996	972
Market Share of Water Treatment Plants	25%	N/A
Market Share of Wastewater Treatment Plants	57%	N/A

<sup>1</sup> Fiscal 1994 was the 13.5-month period November 15, 1993 – December 31, 1994.

<sup>2</sup> OCWA is exempt from Federal and Provincial Income Tax.





In 1995 the Ontario Clean Water Agency continued to position itself to meet the challenges of competition from both domestic and foreign companies. The emergence of aggressive competitors from the private sector is reshaping the market for water and wastewater services in Ontario. At OCWA, it is a driving force for change and innovation.

Municipalities in Ontario are looking to their suppliers for cost-effective alternatives. The change process that OCWA began last year, and will continue in 1996, is empowering us to anticipate the needs of our clients and add value to our services. Our goal is not only to preserve OCWA's market competitiveness but to become the best in the business of producing clean water – an ambition that rests at the heart of the Agency's mission statement.

## 1995 Milestones

During the year, we carried out a major strategic review of the Agency's client relations, business objectives, revenue sources and organizational design. At the same time, we continued to focus on actions that showed immediate results in our service to customers, environmental performance and profitability.

**Value-Added Services:** After consulting with our clients, OCWA produced a strategic marketing plan which presented concrete actions to simplify the way we do business, improve the quality of service, communicate more effectively and achieve profitability. Guided by this plan, we are expanding our sales and marketing activities; we have strengthened our portfolio of value-added services; and we introduced a new user-friendly billing system. One example is new pricing options that offer differentiated benefits to customers and new sources of income to OCWA. This plan has given us a solid foundation on which we can continue to refine future marketing strategies.

**Innovative Solutions to Traditional Challenges:** In 1995, we also demonstrated our ability to seek out and form strategic alliances that can add value to our clients. OCWA examines every aspect of an emerging market and puts together the best partners to meet the client's business objectives. I believe the Agency is uniquely qualified to enter into mutually beneficial public- or private-sector alliances and joint ventures. For example, we developed a proposal in partnership with TransCanada Pipelines Limited to provide water services to the Region of York and, in partnership with one of our municipal clients, the Region of Peel, we are preparing a proposal to supply water services to the Region of Halton.

**Industry-Leading Environmental Management:** Producing clean water is a business that must be managed wisely. In 1995, we continued to use expert conservation methods to meet the demand for water more efficiently; and to treat wastewater more effectively in order to protect the natural environment. At OCWA, we are applying innovative technologies to meet or exceed environmental commitments at all the plants we operate, as well as increasing the cost-effectiveness of our services. In 1995 we began to integrate into our operations an

industry-leading Environmental Management System founded on world-class standards of quality assurance. Our system's rigorous control over procedures and the meaningful measures of success that it can deliver give OCWA a clear competitive advantage in the marketplace.

**Achieving Profitability:** One of our most notable achievements in 1995 was the implementation of a comprehensive strategic review of our organizational structures and values, and the business environment in which we operate. The objective of this review was to map out a change process that would lead OCWA's Operations to profitability by the end of 1996. The review was successful in pointing us toward new ways of organizing OCWA based on a private-sector model, a move that is critical if we are to be truly competitive, efficient and profitable.

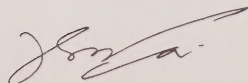
**Earnings Increase:** OCWA achieved earnings of \$16.3 million in 1995 compared with \$13.9 million in 1994. Return on equity was 12.4%. The increase in earnings reflects higher levels of profitability in OCWA's capital financing activities. Plant operations, however, lost \$7.3 million compared with a loss of \$5.1 million in 1994.

## Commercialization: The Way of the Future

I am pleased to report that the Ontario government is currently examining OCWA's role and mandate within the emerging marketplace for water and wastewater services. OCWA's business plan for 1996 sets out a strategy to further entrench private-sector values within the Agency by reorganizing our workforce to meet key goals – client focus, profitability, effectiveness and efficiency. Changes in the design of the organization will be guided by recommendations from a work team formed at the end of 1995.

I would like to thank the employees of OCWA for their patience and support during this ongoing transition. Together we are embarking on a challenging journey to transform OCWA into a stronger organization with a clear focus on client service and a profitable financial base. Backed by a professional, committed and expert workforce, all our efforts are converging to position OCWA as an industry leader. I would also like to express my gratitude to retiring members of the Board of Directors who assisted us in creating a stronger Agency.

Two years ago, we took a big step when we moved from a government ministry to become a provincial Crown corporation and began earning our revenues in the marketplace. Now we are preparing to move forward again – this time in a commercial direction that will allow OCWA to realize its true potential.



**Jeff Marshall**, President and Chief Executive Officer



## Our Commitment to the Client

In its second year of business, the Ontario Clean Water Agency focused on initiatives that moved the organization closer to its all-important goal of achieving self-sufficiency, including actions that will transform OCWA into a more responsive, efficient and flexible organization.

To better understand client needs, OCWA employed a simple strategy: We talked to our clients one-on-one. We invited a cross-section of representatives from municipalities – Treasurers, Chief Administrative Officers and others – to participate in comprehensive focus groups on subjects ranging from contractual agreements to pricing options. Their candid responses supplied the Agency with invaluable information that was instrumental in the development of corrective action plans, described in OCWA's 1995 Marketing Plan for Ontario. The Agency work team that contributed to the development of this document has crafted a plan to complete OCWA's turnaround to financial self-sufficiency and profitability by the end of 1996.

The Agency's new Marketing Plan sets out clear priorities for simplifying business practices and improving quality of service to clients. To that end, OCWA made several key changes in 1995. We introduced new, more efficient pricing, whereby the Agency's existing operating

contracts were converted to fixed fee or lump sum formulas, an initiative that captured savings for both the client and OCWA.

To further simplify procedures, OCWA modelled its new contractual agreement forms after commercial documents that reflect today's competitive marketplace. OCWA's newly developed sales and client service training program, which was delivered to 60 frontline employees in 1995, is just one of the initiatives that is paving the way for more effective relations with our clients.

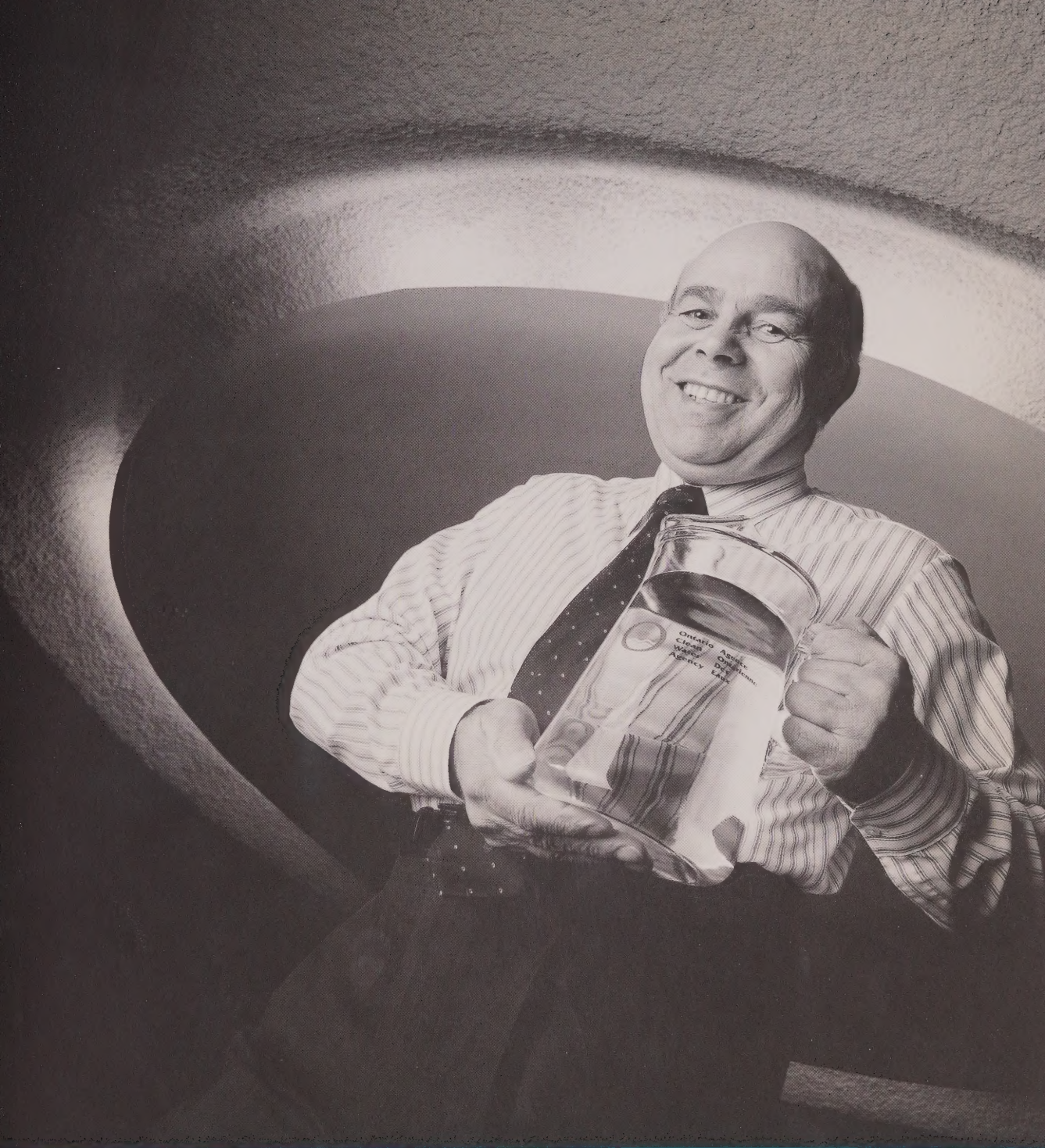
In addition, OCWA developed and implemented a more business-oriented purchasing system, benefiting clients and suppliers alike. Direct client support services were decentralized, allowing the Area Office staff to perform key activities at a level closer to the client; and a specialized database was developed for the Agency's computer network, providing employees with instant access to key information on many aspects of our clients, services and facilities.

The success of these focused initiatives to improve our service is reflected in 1995 marketing results – OCWA achieved a 7% increase in its operating contracts, from 402 to 429; and a 33% increase in its project management contracts, from 120 to 159.



Steve Peters, Mayor of St. Thomas and Maureen Looby, a professional engineer in OCWA's London office, discuss capacity demands at the Elgin-Middlesex pumping station and reservoir, part of the Elgin Area Water System supplying potable water to a number of neighboring communities.





**"The Region of Peel enjoys a strong healthy partnership with OCWA for the provision of affordable, clean drinking water, in an environmentally sustainable manner"**

**Emil Kolb, Chair and CEO, Region of Peel**



## Our Business-Minded Approach

In 1995, OCWA made progress in meeting five overall business objectives by which the Agency measures its performance.

- **To recover all costs from each business stream.**

To be successful, OCWA must recover all costs from its core business of delivering water and wastewater treatment services. To maximize cost recovery, we developed a new financial management system in 1995 to provide timely financial performance information at all corporate levels, and the new pricing options resulted in improved margins on plant operations.

Because OCWA competes for its clients, we recognize the need to be effective – do the right thing; and efficient – do the right thing at the lowest cost. At year end, a work team was formed to recommend an organization design that achieves these goals.

- **To operate like a business.**

The shift from an organization with a government culture to one directly competing in an open marketplace called for changes in the way OCWA conducts its business. Operational

and organizational initiatives in 1995 increased the Agency's effectiveness and speed in responding to new developments in the water and wastewater industry. New methodologies for costing and pricing, and an increased emphasis on sales training, will assist OCWA in meeting its profitability goals.

The Agency introduced more business-like, plain-language agreements and proposals that have been instrumental in saving clients time and money; revamped its purchasing system; and developed an OCWA-wide Assets Management System – a combination of changes that have made the Agency's day-to-day business activities more efficient.

OCWA also increased its focus on communications to ensure that all stakeholders are up-to-date on the Agency's progress. In 1995 we released our first annual report, introduced quarterly financial reports and continued regular newsletters to employees.

In 1995, the Agency aggressively pursued strategic corporate partnerships with the goal of fostering innovative supply and services opportunities for new and existing clients. OCWA joined forces with TransCanada Pipelines Ltd. in a proposal to meet the long-term water supply needs of the Region of York. Known as The York Consortium,



Infrastructure concerns require innovative, flexible and comprehensive solutions such as the one presented by The York Consortium. Forming a strategic partnership, TransCanada Pipelines Ltd. and OCWA aligned their expertise and resources in a proposal to deliver a long-term water supply to the Regional Municipality of York.





A sophisticated thermal unit that incinerates sludge is the cornerstone of the Lakeview Water Pollution Control Plant which serves more than 750,000 people in Mississauga, Brampton and parts of Caledon. Edward Murphy is an Electronics Technician at the plant.

this alliance represented the only all-Canadian team to be shortlisted, a testament to the expertise that the two companies brought to the table.

- **To establish a position in the marketplace.**

During 1995, the Ontario Clean Water Agency successfully raised its profile in the marketplace, resulting in a broader client awareness of OCWA's services and performance standards, as well as joint venture and partnership proposals from some of the leading companies in the water and wastewater industry.

The Agency also raised its profile in the municipal scene by participating in many conferences and trade shows, including those of the Rural Ontario Municipal Association (ROMA) and the Association of Municipalities of Ontario (AMO).

- **To build workforce and workplace excellence.**

OCWA's greatest strength is its people. One of the distinctive characteristics of the Ontario Clean Water Agency is its work team approach, which encourages employees from all corners of the organization to step forward and contribute to the decision-making process.

Work teams were integral to the development of OCWA's Performance Management System and the creation of our Training and Development policies and guidelines. During the year, work teams helped create an Agency-wide orientation program to aid in integrating new employees into the organization. Our "on the road" orientation program also continued in 1995, bringing the Agency's key messages to plant operators and administrative staff across the province.



In 1995 an OCWA-wide work team developed the Operations Training Program now being implemented at a number of in-plant locations. Debbie Turner, Carleton Place, Mona Kornberg, Toronto, Doug Lewis and Gary Booth, both South Peel, were part of the eight member project team.

- **To be an industry leader in environmental compliance.**

OCWA's clients, the municipalities of Ontario, are responsible for supplying safe, clean drinking water and effective wastewater treatment to their communities. As the operator of these facilities, the Ontario Clean Water Agency is committed to attaining the highest possible standards of quality assurance. In 1995, OCWA developed a comprehensive Environmental Management System (EMS) to help owners and operators of water and wastewater facilities meet their environmental responsibilities and deal with potential emergencies.





OCWA utilizes leading-edge technology in its drive to simplify business processes, add value to services and benchmark performance. Lopez Mbala, Computer Centre administrator in Toronto, helps to ensure the transfer of timely, useful information within OCWA's network.

## Our Commitment to the Environment

In 1995, OCWA's Board of Directors approved the organization's new Environmental Policy. The policy is OCWA's public commitment to operational excellence, environmental risk resolution and continuous performance review and improvement.

Over the past year, the Agency established critical elements of its Environmental Management System. Based on the strictest international standard, ISO 14001, the system is designed to ensure each facility operated by OCWA meets or surpasses all requirements of environmental laws and standards.

Among the key elements established in 1995 was an OCWA standard for developing, testing and updating environmental contingency plans and a comprehensive directory of environmental legislation. The Agency also revised the annual facility self-assessment process, part of our proactive approach to reducing environmental risk and exposure to liability for clients. At each facility, the environmental and operational issues are identified, and an action plan is developed to resolve them.

Another vital component of OCWA's risk management is facility-specific, continuously updated Environmental Contingency Plans. A corporate Crisis Communication Plan extends this detailed approach for dealing with contingencies from the facility level to the area and corporate offices. OCWA takes everything into account, including the notification of appropriate authorities, mobilizing technical support, print and broadcast media relations and close liaison with both regulators and residents to ensure they are properly informed.

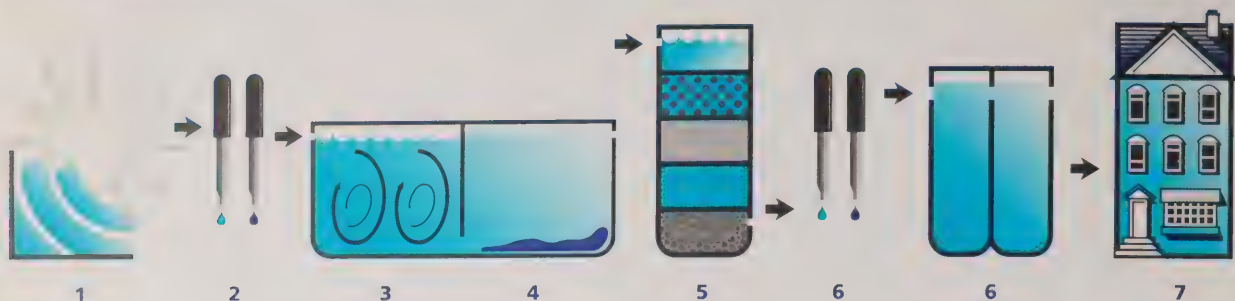


The Environmental Management System designed by a corporate-wide work team is based on the strictest international standards of excellence. Through rigorous testing, laboratory technicians like Lisa Stasiuk at the Sault Ste. Marie Water Pollution Control Plant monitor OCWA's performance.





Through effective and consistent environmental management, OCWA is helping to preserve the integrity of the environment for enjoyment by generations to come. OCWA's Environmental Policy (see Inside Back Cover) describes how we will contribute to a more sustainable future wherever we do business.



# Cleaning Water

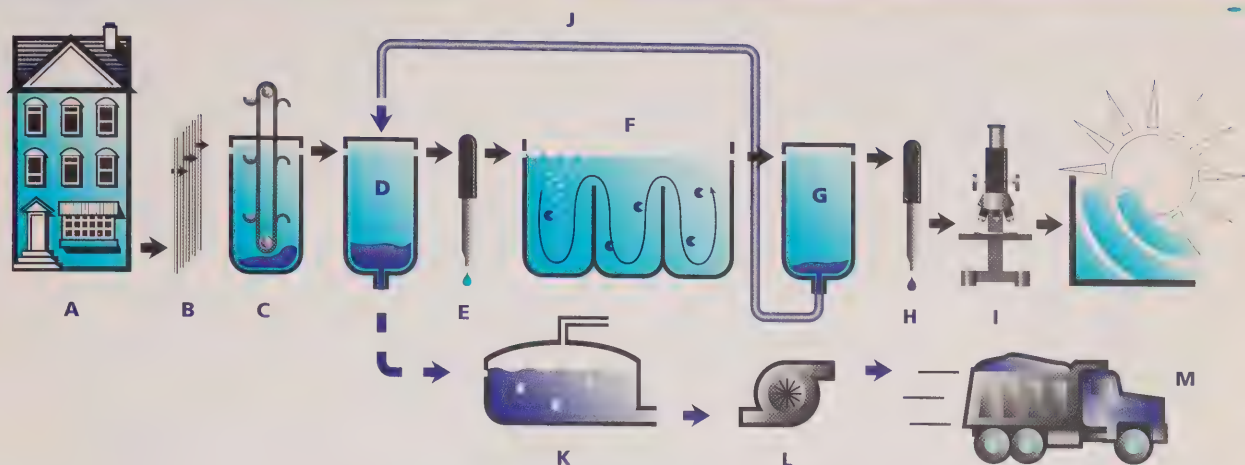
- 1. Water Intake Pipe:** The water intake pipe extends into the lake, river or well supplying water to the facility. In large lakes, these pipes may extend hundreds of feet from the facility. Where necessary, chlorine is used to keep zebra mussels from colonizing in the system.
- 2. Chemical Storage and Feeding:** Chlorine is added to the incoming water to kill micro-organisms. Alum and lime may also be added. Alum concentrates suspended particles such as silt to aid their removal. Lime changes the pH level where required.  
  
The chemicals are mechanically mixed into the water before moving on to the flocculating basin.
- 3. Flocculating Basin:** The flocculating basin stirs the water to concentrate suspended particles. The clumps of particulate which form are known as "floc".
- 4. Settling Basin:** Heavy flocs drop out of the water in the settling tank and collect along the bottom. The settled floc is removed by scrapers which move along the bottom. The cleanest water is left at the surface to be drawn off through spillways which lead to filtering basins.

- 5. Rapid Sand Filters:** The water is already quite clear by the time it reaches the stacked layers of fine sand, activated carbon, gravel and rocks which form the rapid sand filters. The layer of sand removes fine bits of floc, algae and silt. The layer of activated carbon removes any remaining chemicals and odours from the water.

The filters are washed periodically by flushing them with water from the bottom up. This is done about two or three times a day per filter. Plants may have several filtration tanks depending on their size.

- 6. Pure Water Basin:** The purified water goes into holding basins prior to distribution. Safe levels of chlorine are added to check the growth of algae and micro-organisms. Lime may be added to control the pH level of the water. This protects the metal components of the distribution system from corrosion.
- 7.** The treated water is tested regularly to ensure quality. Large holding tanks store the water until it is needed in peoples' homes.





**A. Plant Influent:** Wastewater enters the treatment facility through the municipal sewer system.

**B. Coarse Bar Screen:** Metal bars collect large debris such as rags, wood, plastics, etc.

**C. Grit Removal:** The wastewater flows through a channel, allowing dense, inorganic material to settle on the bottom. Scrapers, hoppers and clam buckets remove the collected grit.

**D. Primary Settling:** The wastewater flows into large settling tanks which allow suspended solids and organic material to sink to the bottom. The raw sludge that settles to the bottom of these tanks is removed through hoppers and sent through the digestion process.

**E.** Partially treated wastewater is drawn from the top of the settling tanks and chemicals are added to remove phosphorous.

**F. Aeration Tanks:** Large aeration tanks mix the partially treated wastewater with oxygen to support bacteria which devour organic waste. The bacteria levels are managed to provide the most efficient removal process.

**G. Final Settling:** The cleanest wastewater is drawn from the top of the aeration tanks through spillways. By this point the water is already quite clear. Polymers may be added to concentrate any remaining material. Once again, suspended particles settle to the bottom and are removed by scrapers or hoppers.

**H. Disinfection:** The cleanest water is drawn from the surface and disinfected with chlorine or ultra-violet light to kill bacteria.

**I.** The treated water is tested to ensure it meets Provincial standards and is returned to the original water source.

**J.** Sludge from the aeration and final settling tanks is drawn from the bottom of the tanks and pumped to the primary settling tank. Not only does this sludge have a high water content, but it also contains oxygen and bacteria which improve the efficiency of the treatment process.

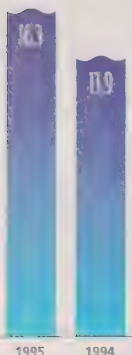
**K. Primary Digester:** Sludge removed throughout the process is pumped to digesters for processing. Anaerobic bacteria consume organic waste in the digesters. This process produces gases which are used to fuel plant boilers and heat facilities.

**L. Dewatering Process:** Vacuum filter or centrifuge systems remove water from the processed sludge to thicken it. The water removed in the process is pumped to the primary settling tank to reenter the treatment process.

**M.** The concentrated sludge, or bio-solid waste is taken away for incineration or conversion into fertilizer.

### Net Earnings

(Millions of Dollars)



### Total Revenue

(Millions of Dollars)



### Total Expenses

(Millions of Dollars)



## 1995 Review

Since the inception of the Ontario Clean Water Agency two years ago, the organization has made significant progress in both its strategic and philosophic perception of the marketplace. This has translated into new approaches to the way OCWA conducts its operations. As these new directions begin to be reflected in the financial results, they will also provide a foundation for the Agency to compete more effectively in the emerging water and wastewater services industry in Ontario. The Agency earned a net income of \$16.3 million in 1995. This represented an increase of \$2.4 million (17.1%) compared with 1994 net income of \$13.9 million. *(All 1994 figures are based on a 13.5-month fiscal year.)*

Total revenue continued to increase in 1995, rising \$0.6 million from \$183.1 million to \$183.7 million. Concurrently, total expenses were reduced by \$1.8 million to \$167.4 million in 1995.

The Operations business stream lost \$7.3 million based on revenues of \$121.9 million. This represented an increase from the Agency's 1994 net loss of \$5.1 million. Almost all of the increase was attributable to bringing OCWA's Corporate Office to full strength and to completing the implementation of the area offices organization, in recognition of clients' need for greater regional contact. Operations revenue increased by \$1 million from 1994 levels.

Project management fees were less than costs in 1995, primarily due to commitments inherited from the Ministry of Environment and Energy to provide project management services at no charge to a number of municipal projects. As these commitments are fulfilled, new fee-paying project management contracts are being signed and revenues are increasing correspondingly.

The Financing business stream earned \$23.6 million based on revenues of \$61.8 million. This compares favourably with 1994 earnings from this business stream of \$19.1 million, on revenues of \$62.3 million.

Financing earnings were slightly below expectations, primarily due to early prepayment options that were exercised by some of OCWA's clients. The decline in market interest rates made it financially attractive for some municipalities to prepay their loans with OCWA.

### Income Statement

<i>(in millions of dollars)</i>	1995	1994
Operations Revenue	121.9	120.9
Operations Expense	129.2	126.0
Operations Loss	(7.3)	(5.1)
Financing Revenue	61.8	62.3
Financing Expense	38.2	43.2
Net Financing Income	23.6	19.1
Net Income for the Period	16.3	13.9

*Numbers may not tally due to rounding.*

### Operations Expense

At its inception, the Agency inherited a cost-plus pricing formula that did not meet our needs nor those of our clients. From the clients' point of view, OCWA bore very little business risk and had no incentive to reduce overall expenditures. From the Agency's point of view, the formula did not cover our costs and there was no return to us for plant optimization; it acted as a disincentive to be cost-efficient.



As a result, in mid-1995, OCWA introduced additional pricing alternatives (fixed price and lump sum/shared savings) that provide benefits to both parties, recognizing appropriate risk assumption and operational realities.

The next step is for OCWA to implement a cost reduction program that will capture major savings from current operating expenditures – both direct and indirect (Selling, General and Administration).

### OCWA's Financial Position

Year-end Total Assets equalled \$644.6 million. This represented a \$43.5 million decrease in Total Assets from 1994. The reduction is mainly due to repayments from client-municipalities for investments in water and wastewater facilities.

The Agency's Current Assets in 1995 were \$63.4 million, including Cash and Short-Term Investments of \$30.2 million. With Current Liabilities of \$46.3 million, the Agency had \$17.1 million in working capital to meet short-term obligations.

OCWA's Financial Assets totalled \$578.7 million, including \$509.7 million in investments receivable for water and wastewater facilities and \$41.9 million in investments receivable for facilities under construction. Investments receivable represent the amounts still owed by municipalities to OCWA for the construction of water and wastewater facilities. In 1994, Financial Assets were valued at \$597.7 million. The difference is attributable to repayments by municipal clients of a portion of the investments receivable. Fixed Assets totalled \$2.5 million and consisted mainly of furniture and computer hardware. Fixed Assets in 1994 were \$2.3 million.

Total Liabilities for the year-end were \$504.1 million, consisting of Current Liabilities of \$46.3 million and Long-Term Liabilities of \$457.8 million. This compares with 1994 Total Liabilities of \$564.2 million. The Agency's long-term debt to the Province was reduced to \$437.3 million from \$483.9 million in 1994.

No dividends were declared and retained earnings at year-end amounted to \$30.3 million. When combined with the Agency's contributed surplus of \$110.2 million, the Agency's equity capital increased to \$140.4 million.

### Statement of Changes in Financial Position

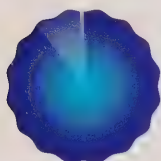
<i>(in millions of dollars)</i>	1995
<b>Cash Provided From (Used For)</b>	
Operating Activities	17.9
Financing Activities	(32.8)
Investment Activities	(1.1)
Increase (Decrease) in Cash Position	(16.0)
Cash Position on January 1, 1995	46.2
Cash and Short-Term Investments at December 31, 1995	30.2

*Numbers may not tally due to rounding.*

Operating activities generated a positive cash flow of \$17.9 million.

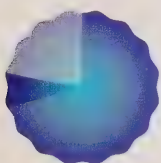
Net cash requirements for financing activities were \$32.8 million. A significant outflow of cash was the payment of \$46.6 million of OCWA's outstanding long-term debt. This payment was considerably larger than plan as a result of prepayments received by the Agency on outstanding loans from municipalities. Other significant outflows of cash included \$5.2 million utilized for new loans and \$9.7 million used to decrease municipal contributions payable.

#### Assets (Millions of Dollars)



- Financial Assets - 578.7
- Current Assets - 63.4
- Fixed Assets - 2.5

#### Liabilities & Equity (Millions of Dollars)



- Current Liabilities - 46.3
- Long-Term Liabilities - 457.8
- Equity - 140.4

Significant inflows of cash included the generation of \$20.0 million from recoveries in investments receivable for facilities and \$12.5 million in loans receivable from the Ministry of Municipal Affairs and Housing.

Cash for the purchase of fixed assets totalled \$1.1 million.

The Agency's total cash position for 1995 decreased by \$16.0 million to \$30.2 million.

## Financial Outlook

1996 will be a pivotal year for the Agency. We are planning to have established financial self-sufficiency in the Operations business stream by year-end.

The loss in Operations will be eliminated through a reduction in both direct and SG&A costs. To do so, OCWA will implement a workforce restructuring initiative and undertake a number of other cost reduction programs.

Improvements to key financial indicators, as well as significant progress in the commercialization of our operations, are necessary steps to enable OCWA to meet its funding requirements separate from the Province.

The Agency's 1996 Plan financial targets:

<i>(in millions of dollars)</i>	<b>1996 Plan</b>
Operations Revenues	115.0
Operations Expenses	115.9
Operations Loss	(0.9)
Financing Revenues	50.8
Financing Expenses	29.2
Net Financing Income	21.6
Net Income Before Reorganization Charges	20.7
Reorganization Charges	12.5
Net Income for the Period	8.3

*Numbers may not tally due to rounding.*



Management and the Board of Directors are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by Management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgements.

The Ontario Clean Water Agency is dedicated to the highest standards of integrity in its business. To safeguard Agency assets, the Agency has a sound and dynamic set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the by-laws of the Agency. Internal audits are conducted to assess management systems and practices, and reports are issued to the Senior Management Committee.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets quarterly to oversee the financial activities of the Agency and at least annually to review the financial statements and the external auditors' report thereon and recommend them to the Minister for approval.

The financial statements have been examined by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears below, outlines the scope of the auditor's examination and opinion.



**Jeff Marshall**  
*President and Chief Executive Officer*

March 21, 1996



**Fausto Saponara**  
*Vice President, Business Development,  
Acting Vice President, Finance and  
Chief Financial Officer*

## Auditor's Report

**To the Ontario Clean Water Agency, the Minister of Environment and Energy and the Minister of Finance**

I have audited the balance sheet of the Ontario Clean Water Agency as at December 31, 1995 and the statements of operation and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Agency's Management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at December 31, 1995 and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles.



**Erik Peters, FCA**  
*Provincial Auditor*

Toronto, Ontario  
February 29, 1996

	December 31, 1995	December 31, 1994
<i>(in thousands of dollars)</i>		
<b>Assets</b>		
<b>Current assets:</b>		
Cash and short-term investments	\$ 30,150	\$ 46,233
Accounts receivable, net		
Municipalities and other customers	10,199	16,467
Ministry of Environment and Energy	1,050	—
Goods and services tax receivable	1,494	1,907
Current portion of investments receivable:		
Water and wastewater facilities (note 2)	13,593	8,653
Facilities under construction (note 3)	6,885	14,851
	<u>63,371</u>	<u>88,111</u>
<b>Financial assets:</b>		
Investments receivable for water and wastewater facilities (note 2)	509,675	534,621
Investments receivable for facilities under construction (note 3)	41,854	28,156
Municipal contributions held for future repairs (note 4)	16,301	15,155
Loan receivable – Ministry of Municipal Affairs and Housing (note 5)	—	12,481
Loan receivable – Ministry of Environment and Energy (note 5)	5,735	—
Loans receivable – Top-up loan (note 6)	5,169	—
Sinking fund (note 7)	—	7,261
Fixed assets, net (note 8)	2,464	2,292
	<u>581,198</u>	<u>599,966</u>
Total Assets	<u>\$ 644,569</u>	<u>\$ 688,077</u>
<b>Liabilities and Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 27,782	\$ 31,641
Current portion of long-term liabilities (note 9)	18,563	13,129
Deferred revenue	—	839
Due to the Ministry of Environment and Energy	—	339
	<u>46,345</u>	<u>45,948</u>
<b>Long-term liabilities:</b>		
Long-term debt (note 9)	419,698	471,757
Municipal contributions payable (note 10)	20,405	29,007
Employee benefits and pension plan (notes 11 and 12)	17,672	17,528
	<u>457,775</u>	<u>518,292</u>
<b>Equity of Ontario:</b>		
Contributed surplus (note 13)	110,164	109,888
Retained earnings	30,285	13,949
	<u>140,449</u>	<u>123,837</u>
Total Liabilities and Equity	<u>\$ 644,569</u>	<u>\$ 688,077</u>

See accompanying notes to financial statements.

On behalf of the Board



Director



Director



# Statement of Operations and Retained Earnings

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(in thousands of dollars)	For the period November 15, 1993, (date of inception) to December 31,	
	For the year ended December 31, <b>1995</b>	<b>1994</b>
<b>Operating revenues:</b>		
Utility operations	\$ 117,976	\$ 119,484
Fees	3,920	1,431
Total Operating Revenues	121,896	120,915
<b>Operating expenses:</b>		
Salaries and benefits (note 16)	54,008	54,082
Other operating expenses	74,269	71,504
Depreciation and amortization of fixed assets	892	440
Total Operating Expenses	129,169	126,026
<b>Operating loss</b>	<b>(7,273)</b>	<b>(5,111)</b>
<b>Financing revenues:</b>		
Revenues from investments	59,646	60,548
Interest on facilities under construction	2,198	1,711
Total Financing Revenues	61,844	62,259
<b>Financing expenses:</b>		
Interest	35,706	40,725
Financing administration expenses	2,173	2,124
Provision for losses	319	350
Depreciation expense	37	—
Total Financing Expenses	38,235	43,199
<b>Net financing income</b>	<b>23,609</b>	<b>19,060</b>
<b>Net income for the period</b>	<b>16,336</b>	<b>13,949</b>
<b>Retained earnings, opening balance</b>	<b>13,949</b>	<b>—</b>
<b>Retained earnings, ending balance</b>	<b>\$ 30,285</b>	<b>\$ 13,949</b>

See accompanying notes to financial statements.

## Statement of Changes in Financial Position

(in thousands of dollars)	For the period November 15, 1993, (date of inception) to December 31,	
	For the year ended December 31, 1995	1994
<b>Cash provided from (used for):</b>		
<b>Operating activities:</b>		
Net Income	\$ 16,336	\$ 13,949
Changes in non-cash working capital balances		
• Accounts receivable	5,631	2,126
• Accounts payable and accrued liabilities	(3,859)	25,041
• Deferred revenue	(839)	839
• Due to Ministry of Environment and Energy	(339)	339
Depreciation	929	440
	<u>17,859</u>	<u>42,734</u>
<b>Financing activities:</b>		
Net recoveries of investments receivable in water and wastewater facilities	20,006	63,775
Net increase in investments receivable for facilities under construction	(5,732)	(42,572)
Net increase (decrease) in municipal contributions payable	(9,748)	3,007
Changes in contributed surplus (note 13)	276	10,888
Increase (decrease) in long-term employee benefits payable	144	(372)
Long term debt repayment	(46,625)	(16,014)
Increase in loans receivable - Ministry of Environment and Energy	(5,735)	-
Decrease (increase) in loans receivable - Ministry of Municipal Affairs and Housing	12,481	(12,481)
Increase in top-up loan	(5,169)	-
Decrease in sinking fund (note 7)	7,261	-
	<u>(32,841)</u>	<u>6,231</u>
<b>Investment activities:</b>		
Purchase of fixed assets	(1,101)	(2,732)
<b>Increase (decrease) in cash position</b>	<b>(16,083)</b>	<b>46,233</b>
<b>Cash position, opening balance</b>	<b>46,233</b>	<b>-</b>
<b>Cash and short-term investments, ending balance</b>	<b>\$ 30,150</b>	<b>\$ 46,233</b>

See accompanying notes to financial statements.



**General:** The Ontario Clean Water Agency (The "Agency") was established on November 15, 1993, under the authority of The Capital Investment Plan Act (the "Act").

In accordance with the Act, the Agency's objectives include:

- assisting municipalities to provide water and wastewater services on a cost-recovery basis by financing, planning, developing, building and operating such works and services;
- financing, building and operating water and wastewater facilities on behalf of Ontario on a cost-recovery basis; and
- providing these services so as to protect human health and the environment, encourage conservation of water resources and support provincial policies for land use and settlement.

In accordance with the provisions of the Act, the Agency is incorporated under the laws of Ontario. The Agency is exempt from Federal and Provincial income taxes.

### 1. Significant accounting policies:

These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants. Included below are those accounting policies which are of significance to the Agency.

#### (a) Cash and short-term investments

Short-term investments are stated at the lower of cost or market.

#### (b) Fixed assets

Equipment and leasehold improvements are stated at cost. Leasehold improvements are being amortized over the life of the leases. Depreciation is provided using the straight-line method with a half year provision in the year of purchase. Equipment is being depreciated at rates calculated to amortize the cost of the assets over the estimated lives as follows:

Automotive equipment	4 years
Furniture and fixtures	5 years
Computer hardware	3 years
Computer software	2 years

#### (c) Investments receivable for facilities under construction

Interest on borrowings and other incremental expenditures relating to the projects are capitalized during the construction period.

#### (d) Deferred revenue

Amounts collected in advance of providing the related services are reflected as deferred revenue.

#### (e) Utility operations

The majority of contractual arrangements with the municipalities, for the operation of water and wastewater treatment plants, provide for the recovery of all costs incurred in their operations plus a management fee. Revenue is recognized at the time such costs are incurred even though agreements provide for the collection of a portion of those costs in future years. Accordingly, cost incurred in excess of amounts billed and to be recovered in future years are classified as "Investments receivable in water and wastewater facilities".

#### (f) Change in accounting policy

During 1995, the Agency retroactively adopted the policy of transferring Investments receivable for facilities under construction to Investments receivable for water and wastewater facilities annually rather than when a project is completed. As a result of this change, \$6.8 million (1994 - \$14.8 million) of Investments receivable for facilities under construction has been classified as a current asset.

**2. Investments receivable for water and wastewater facilities:**

(a) These investments represent the outstanding principal portion of amounts receivable from various municipalities and other sundry customers for capital expenditures undertaken by the Agency on their behalf and recoverable operating costs, if any, not billed. In addition, it includes capitalized operating deficits on certain projects that will be collected from customers during future years. Investments receivable for water and wastewater facilities are recorded at the lesser of both the outstanding principal and other capitalized amounts, and net realizable value.

(b) The investments receivable are supported by provincial and municipal agreements which bear interest at rates between 5.13% and 15.54%. Scheduled principal repayments of the investments are as follows:

*(in thousands of dollars)*

1996	\$ 13,593
1997	13,000
1998	13,500
1999	14,000
2000	14,500
Thereafter	454,675
	523,268
Less: Current portion	(13,593)
	\$ 509,675

**3. Investments receivable for facilities under construction:**

(a) "Investments receivable for facilities under construction" represent new water and wastewater facilities or major capital improvements to existing facilities that have been undertaken by the Agency on behalf of its customers. Annually, the net recoverable amount from the customer is transferred to "Investments receivable for water and wastewater facilities". Certain municipalities pay the entire balance of their amount, accumulated as facilities under construction, within one year. In 1996, \$6.6 million (1994 – \$14.7 million) will be paid. The current portion of remaining amounts that will be transferred to investments receivable for water and wastewater facilities is \$0.3 million (1994 – \$0.1 million).

(b) In the current year, the Agency capitalized interest amounting to \$2.2 million (1994 – \$1.7 million) to investments receivable for facilities under construction. In addition, provincial assistance amounting to \$20.1 million (1994 – \$12.5 million) was recorded as a reduction of investments receivable for facilities under construction.



#### 4. Municipal contributions held for future repairs:

At December 31, 1995, the Agency held funds that will be used for future repairs amounting to \$16.3 million (1994 – \$15.2 million).

Under certain service agreements, municipalities make annual contributions to their municipality's fund to cover normal repairs. Interest earned on the unexpended balance accrues to the fund. Under the aforementioned agreements, funds are required to be returned to the municipalities.

<i>(in thousands of dollars)</i>	1995	1994
Opening balance	\$ 15,155	\$ 14,200
<b>Add:</b> Municipal contributions – billings	494	800
Interest earned	1,329	1,400
<b>Less:</b> Repair costs and return of funds	(677)	(1,245)
Ending balance	\$ 16,301	\$ 15,155

#### 5. Loan receivable – Ministry of Municipal Affairs and Housing: Loan receivable – Ministry of Environment and Energy:

The Agency finances the construction of certain facilities that it owns and operates on behalf of municipalities. A portion of the construction costs are eligible for provincial assistance. Assistance previously recoverable from the Ministry of Municipal Affairs and Housing is now recoverable from the Ministry of Environment and Energy.

#### 6. Loans receivable – Top-up loans:

The Agency makes loans to municipalities to finance water and wastewater facilities that have received provincial assistance under the Municipal Assistance Program. The loans are made for terms of up to 20 years at rates set by the Ontario Financing Authority at the time the loan is granted.

#### 7. Sinking fund:

A number of agreements entered into by municipalities and the Province before April 1, 1974, required that funds be maintained to retire the debt incurred to build water or wastewater facilities. As of December 31, 1995, all of the funds had either been retired or converted to an interest bearing investment receivable. (See also note 10.)

#### 8. Fixed assets:

<i>(in thousands of dollars)</i>	Cost	1995 Additions	Accumulated Depreciation	1995 Net Value	1994 Net Value
Furniture and fixtures	\$ 547	\$ 412	\$ (201)	\$ 758	\$ 490
Automotive equipment	39	0	(13)	26	35
Computer hardware	1,604	344	(770)	1,178	1,337
Computer software	394	313	(340)	367	296
Leasehold	148	32	(45)	135	134
	\$ 2,732	\$ 1,101	\$(1,369)	\$ 2,464	\$ 2,292

**9. Long-term debt:****(a) Long-term debt**

Long-term debt owed to the Province of Ontario bears interest at 7.4% for a term of 20 years. This debt was incurred to finance investments receivable for water and waste-water related financial assets transferred to the Agency from the Province of Ontario. During the year, the Agency made additional principal payments of \$ 34.5 million.

**(b) Repayments of long-term debt**

Principal repayments of the long-term debt with the Province at December 31, 1995, are as follows:

*(in thousands of dollars)*

1996	\$ 17,563
1997	12,800
1998	13,748
1999	14,765
2000	15,858
Thereafter	362,527
	<hr/> 437,261
Less: Current Portion	(17,563)
	<hr/> \$ 419,698

(c) The current portion of long-term liabilities includes \$1.0 million (1994 – \$1.0 million) of estimated current employee benefits payable.

**10. Municipal contributions payable:**

*(in thousands of dollars)*

	1995	1994
Municipal contributions held for future repairs	\$ 12,953	\$ 15,155
Sinking fund contributions (note 7)	0	6,681
Municipal operating expense prepayments	7,452	7,171
	<hr/> \$ 20,405	<hr/> \$ 29,007

**11. Employee benefits:**

The Agency has assumed the responsibility to fund the accrued employee benefits accumulated by employees transferred to the Agency from the Province of Ontario civil service. These costs have been estimated to amount to \$18.7 million (1994 – \$18.6 million) of which \$1.0 million (1994 – \$1.0 million) has been classified as a current liability. The Agency accrues two percent of salaries and wages of classified staff as a provision for entitlements during the year.

**12. Pension plan:**

The Agency provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario. The Agency's contributions related to the pension plans for the year was \$2.9 million (1994 – \$1.2 million) and is included in salaries and benefits in the Statement of Operations and Retained Earnings.



### 13. Contributed surplus:

The opening contributed surplus was received from the Province of Ontario in the form of the book value of net assets in excess of obligations assumed and is accounted for as the Agency's equity. Included in the closing balance are the following:

*(in thousands of dollars)*

Opening balance, January 1, 1995	\$ 109,888
<b>Add:</b> Adjustments to opening balance	276
	<u>\$ 110,164</u>

### 14. Municipal Assistance Program advances:

Under an administrative arrangement with the Ministry of Environment and Energy, the Agency is responsible for managing funds advanced to municipalities under the Municipal Assistance Program (MAP). As the Agency acts solely as an intermediary for the advances, they are excluded from the accounts of the Agency.

### 15. Related party transactions:

As a result of the relationship of the Agency with the Province and the classification as a Province of Ontario Schedule IV Agency the following related party transactions exist and have been disclosed in the notes to the financial statements:

- (a) Transactions with the Province of Ontario
- (b) Transactions with the Ministry of Environment and Energy
- (c) Transactions with the Ontario Financing Authority
- (d) Transactions with the Ministry of Municipal Affairs and Housing

### 16. Salaries:

Provincial legislation requires disclosure of Ontario public sector employees paid an annual salary in excess of \$100,000 in 1995. The individuals are listed as follows:

Marshall, Jeff	President and Chief Executive Officer	\$ 115,250
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### 17. Subsequent events:

The Agency commenced a reorganization of its workforce during the first quarter of 1996. The estimated cost of the reorganization is \$12.5 million. This amount will be recognized as a charge to earnings in the first quarter of 1996.

## Board of Directors

### Chair:

**Jeff Marshall**  
President & CEO  
Ontario Clean Water Agency

### Directors:

**Daniel Burns**  
Deputy Minister  
Ministry of Municipal Affairs  
and Housing

**Richard Dicerni**  
Deputy Minister  
Ministry of Environment and Energy  
(January 1 – August 16, 1995)

**Michael Gourley**  
Deputy Minister  
Ministry of Finance

**Jay Kaufman**  
Deputy Minister  
and Secretary of Treasury Board  
Ministry of Finance  
(January 1 – July 19, 1995)

**Stien Lal**  
Deputy Minister  
Ministry of Municipal Affairs  
(January 1 – July 19, 1995)

**Robert Mitton**  
Deputy Minister  
Ministry of Natural Resources  
(January 1 – February 28, 1995)

**Linda Stevens**  
Deputy Minister  
Ministry of Environment and Energy

**Ron Vrancart**  
Deputy Minister  
Ministry of Natural Resources

## Senior Management Committee

**Judy Brown**  
Executive Support Coordinator

**Tony Burlachenko**  
Assistant Vice President,  
Sales and Marketing

**Sharon Gray**  
Vice President, Human Resources

**Jeff Marshall**  
President & CEO

**Bryan Mason**  
Executive Assistant  
(January 1 – March 31, 1995)

**Margaret McLaughlin**  
Manager, Communications

**Jim Merritt**  
Vice President, Operations

**Balinder Rai**  
Executive Assistant

**Fausto Saponara**  
Vice President, Administration  
and Chief Financial Officer

**Elizabeth Waight**  
Corporate Counsel and Secretary

## Corporate Directory

### Corporate Office

20 Bay Street, Suite 700  
Toronto, Ontario  
M5J 2N8

General Inquiry: (416) 314-5600  
Fax Number: (416) 314-8300  
Toll Free: 1-800-667-6292

### Central Area Office

Kal Haniff, Manager  
1057 Main Street West, 2nd Floor  
Hamilton, Ontario  
L8S 1K9

General Inquiry: (905) 524-3384  
Fax Number: (905) 521-7190

### Eastern Area Office

Frank Reinholz, Manager  
593 Norris Court  
Kingston, Ontario  
K7P 2R9

General Inquiry: (613) 634-6292  
Fax Number: (613) 634-1942  
Toll Free: 1-800-853-6292

### Western Area Office

Paul Isles, Manager  
1240 Wonderland Road South  
London, Ontario  
N6L 1A7

General Inquiry: (519) 652-7014  
Fax Number: (519) 652-7020


### Northern Area Office

Nels Conroy, Manager  
108 Magill Street  
Walden Industrial Park, 2nd Floor  
Lively, Ontario  
P3Y 1K7

General Inquiry: (705) 692-6292  
Fax Number: (705) 692-1865

*Ce rapport a également été publié  
en français.*





OCWA, its Board of Directors,  
and its entire staff are committed  
to the principles and objectives set  
out in our Environmental Policy.

**OCWA's Policy is to:**

- Create and maintain a comprehensive Environmental Management System to ensure a high standard of operations and to identify and resolve any environmental risks associated with our operations.
- Continuously review and seek to improve our environmental performance on behalf of our clients. OCWA will strive to surpass the requirements of environmental laws and standards.
- Establish clear environmental objectives, practices and procedures and to train staff on the environmental aspects of our business and their responsibilities for environmental management.
- Audit the facilities we operate to ensure environmental compliance.
- Communicate the environmental aspects of our operations to clients and other interested parties.
- Integrate sound environmental management into all aspects of our business.
- Contribute to a more sustainable future in the jurisdictions where we do business. OCWA will implement economic energy saving and waste reduction projects, promote the wise use of water and cooperate in the development of innovative technology for water/wastewater systems. OCWA will encourage its suppliers to be environmentally responsible.

OCWA's Board of Directors acts to ensure the implementation of this Policy and monitors progress of the environmental program.



**Ontario    Agence  
Clean    Ontarienne  
Water    Des  
Agency    Eaux**



This annual report is printed on recycled paper  
and is elemental chlorine free.

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